

CHARTER TOWNSHIP OF NILES, MICHIGAN
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
For the Fiscal Year Ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Charter Township of Niles, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan, as of and for the year ended December 31, 2011, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Niles's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2012, on our consideration of the Charter Township of Niles, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress, and budgetary comparison

information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Niles's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Grand Rapids, MI
May 2, 2012

Management's Discussion and Analysis

The following discussion and analysis is intended as a narrative overview of the Charter Township of Niles, Michigan's operations over the fiscal year and its financial condition on December 31, 2011. Please read it in conjunction with the Township's financial statements.

Financial highlights

- The Township's total net assets increased \$186,329 as a result of this year's operations.
- Of the \$20,479,730 total net assets reported, \$6,521,246 is unrestricted.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$2,687,665

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are presented to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). The Township's basic financial statements are comprised of four parts: Management's Discussion and Analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how general government services, such as public works and public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds statements offer short and long-term financial information about the activities the government operates like a business. The Township has three proprietary funds to account for its sewer and water operations, and the allocation of self-insurance costs to the Township's funds.
 - Fiduciary funds statements show the changes in assets held for others, including employee pensions.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of

required supplementary information that further explains and supports the information in the financial statements.

Government -wide statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets and the Statement of Activities include all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, one needs to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's infrastructure.

The government-wide financial statements of the Township are divided into two categories:

- Governmental activities - These activities include functions most commonly associated with government (for example, general government, public safety, public works). Property taxes, assessments, and intergovernmental revenues generally fund these services.
- Business-type activities - The Township charges fees to customers to help it cover the costs of operating the water and sewer operations.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

- **Governmental funds.** Most of the Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- **Proprietary funds.** Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- **Fiduciary funds.** These funds are used to account for the collection and disbursement of resources for the benefit of employees and other entities outside the Township. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Financial analysis of the Township as a whole

Net assets. Total net assets at the end of the fiscal year were \$20,479,370 . Of this total, \$12,499,698 is invested in capital assets and \$1,458,426 is restricted. The remaining \$6,521,246 component of net assets is unrestricted.

Charter Township of Niles
Net Assets as of December 31, 2011 and December 31, 2010

	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 5,448,234	\$ 5,284,400	\$ 4,342,069	\$ 4,847,500	\$ 9,790,303	\$ 10,131,900
Capital Assets	2,587,819	2,653,100	11,206,879	10,897,800	13,794,698	13,550,900
Total Assets	8,036,053	7,937,500	15,548,948	15,745,300	23,585,001	23,682,800
Current Liabilities	1,668,103	1,828,400	245,116	150,200	1,913,219	1,978,600
Long-term Liabilities	22,412	-	1,170,000	1,411,200	1,192,412	1,411,200
Total Liabilities	1,690,515	1,828,400	1,415,116	1,561,400	3,105,631	3,389,800
Invested in Capital Assets, Net of Related Debt	2,587,819	2,653,100	9,911,879	9,486,600	12,499,698	12,139,700
Restricted	579,621	512,800	879,165	990,400	1,458,786	1,503,200
Unrestricted	3,178,458	2,943,200	3,342,788	3,706,900	6,521,246	6,650,100
Total Net Assets	\$ 6,345,898	\$ 6,109,100	\$ 14,133,832	\$ 14,183,900	\$ 20,479,730	\$ 20,293,000

Changes in net assets. The Township's total revenues are \$4,895,676. \$696,118 (14 percent) came from taxes, \$1,027,413 (21 percent) was from state sources, and \$3,069,030 (63 percent) were derived from charges for services, including utility charges and assessments.

The total cost of all the Townships programs totaled \$4,709,347. \$2,021,963 (43 percent) of the Township's costs relates to the provision of public safety, \$1,947,000 (41 percent) to public works and utilities, and \$518,345 (11 percent) was spent for general government services.

Charter Township of Niles
Change in Net Assets for Fiscal Year Ended December 31, 2011 and December 31, 2010

	Governmental Activities		Business-Type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Revenue						
Program Revenues						
Charges for Services	\$ 1,344,742	\$ 1,463,700	\$ 1,724,288	\$ 1,618,200	\$ 3,069,030	\$ 3,081,900
Operating Grants & Contributions	2,525	16,300	-	-	2,525	16,300
Capital Grants & Contributions	-	81,400	-	-	-	81,400
Total Program Revenues	1,347,267	1,561,400	1,724,288	1,618,200	3,071,555	3,179,600
General Revenues						
Property Taxes & Assessments	696,118	672,200	-	-	696,118	672,200
State Revenue Sharing	1,027,413	854,500	-	-	1,027,413	854,500
Franchise Fees	37,203	66,500	-	-	37,203	66,500
Investment Income	21,877	28,800	41,510	35,600	63,387	64,400
Total General Revenues	1,782,611	1,622,000	41,510	35,600	1,824,121	1,657,600
Total Revenues	3,129,878	3,183,400	1,765,798	1,653,800	4,895,676	4,837,200
Expenses						
Legislative	81,186	41,600	-	-	81,186	41,600
General Government	518,345	514,000	-	-	518,345	514,000
Public Safety	2,021,963	2,036,100	-	-	2,021,963	2,036,100
Public Works	131,157	108,000	1,708,644	1,628,500	1,839,801	1,736,500
Recreation & Culture	61,342	88,900	-	-	61,342	88,900
Community & Economic Developmen	79,511	63,200	-	-	79,511	63,200
Interest on Debt	-	-	107,199	88,300	107,199	88,300
Total Expenses	2,893,504	2,851,800	1,815,843	1,716,800	4,709,347	4,568,600
Increase / Decrease in Net Assets	236,374	331,600	(50,045)	(63,000)	186,329	268,600
Beginning Net Assets	6,109,241	5,777,641	14,183,800	14,246,800	20,293,041	20,024,441
Ending Net Assets	<u>\$ 6,345,615</u>	<u>\$ 6,109,241</u>	<u>\$ 14,133,755</u>	<u>\$ 14,183,800</u>	<u>\$ 20,479,370</u>	<u>\$ 20,293,041</u>

Governmental activities. Governmental activities increased the Township's net assets by \$236,374 this year. Property taxes increased due to changes in taxable property values, and the Township received increased state revenue sharing because of an increase in population since the 2000 census. There were small increases in several different types of service charges. Categories

of expenses were similar to last year, with slight changes in public safety, public works, and general government costs.

The cost of all governmental activities this year was \$2,893,504. After subtracting the direct charges to those who directly benefited from the programs \$1,344,742 and operating and capital grants \$2,525, the “public benefit” portion covered by taxes, state revenue sharing, and other general revenues was \$1,546,237.

Business-type activities. The Township’s business-type activities had \$14,133,832 in net assets at the end of the year, most of which \$9,911,879 was invested in capital assets. The net assets of the business-type activities decreased by \$50,045 during the year. Increasing contractual costs and higher billings for services resulted in a smaller decrease in net assets compared to the prior year.

Financial analysis of the Township’s funds

At December 31, 2011, the Township’s governmental funds reported a combined fund balance of \$3,724,909.

Revenues in the General Fund for 2011 exceeded expenditures by \$160,441. The ending fund balance totaled \$3,233,181, of which \$21,136 is nonspendable for prepaid costs and \$524,380 is committed for a long-term intra-fund loan, leaving an unrestricted fund balance of \$2,687,665 at year end.

The fund balance in the Fire Operating Fund decreased by \$7,329, as expenditures exceeded assessments. The fund balance at the end of 2011 was \$387,717.

The fund deficit in the Fire Equipment Fund decreased by \$203,924, as assessments exceeded expenditures for the year. The cumulative deficit is \$210,441 at the end of 2011.

The combined fund balances for all other governmental funds decreased by \$78,384 and totaled approximately \$314,452 at the end of 2011.

The Sewer and Water funds experienced operating losses of \$1,358 and \$39,745, respectively, reflecting primarily the portion of depreciation expense not covered by customer charges. Sewer and Water operating revenues increased slightly. In total, Sewer Fund net assets increased by \$10,852, while the Water Fund net assets decreased by \$60,897.

General Fund budgetary highlights

There was no change in total appropriations between the original and final General Fund budget adopted by the Township Board. Budget amendments within and among categories were nominal and were made to reflect anticipated 2011 expenditures.

Revenue totals, including state grants and restricted contributions, were \$54,965 more than budgeted. Also, transfers in from other funds were \$342,704 more than budgeted. Lastly, total

expenditures were \$105,476 less than budget. Overall, the General Fund had a favorable budget variance of \$503,145 for the year.

Capital assets and debt administration

Capital assets

Through December 31, 2011, the Township had invested \$13,794,698, net of depreciation, in various capital assets, including its land, buildings, equipment, and sewer and water systems. The Township also added \$631,858 in sewer system assets during 2011. More detailed information about the Township's capital assets is presented in Note 5 of the basic financial statements.

Long-term debt

As described in Note 9 to the financial statements, the Township had \$1,295,000 in Water Fund bonds outstanding at the end of 2011. No new debt was issued during the year. Other long-term obligations consisted of a \$22,412 liability for compensated absences.

Economic condition and outlook

About \$2 million of revenues are expected to be available for appropriation in the General Fund. Expenditures are expected to change by small amounts compared to 2011. The Township continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2012, the Township plans again to use current revenues to provide essential services and to maintain the Township's financial reserves at similar levels. Property tax revenues are expected to change minimally reflecting fairly stable property values. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition of the Township.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

James Kidwell, Supervisor
Phone: (269) 684-0870
Charter Township of Niles
320 Bell Road
Niles, MI 49120

Charter Township of Niles
Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 2,316,657	\$ 2,425,088	\$ 4,741,745
Investments	1,245,114	407,826	1,652,940
Taxes Receivable	904,587	--	904,587
Receivables, Net	206,692	643,495	850,187
Intergovernmental Receivables	721,579	75,136	796,715
Prepaid Expenses	53,605	10,331	63,936
Total Current Assets	5,448,234	3,561,876	9,010,110
<i>Noncurrent Assets</i>			
Receivables, Noncurrent	--	749,924	749,924
Deferred Charges	--	30,269	30,269
Capital Assets, Net	2,587,819	11,206,879	13,794,698
Total Assets	8,036,053	15,548,948	23,585,001
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	25,802	114,521	140,323
Accrued Payroll	7,797	3,926	11,723
Accrued Interest	--	8,989	8,989
Deferred Revenue	1,627,184	--	1,627,184
Current Portion of Long-term Debt	--	125,000	125,000
<i>Internal Balances</i>	<i>7,320</i>	<i>(7,320)</i>	<i>--</i>
Total Current Liabilities	1,668,103	245,116	1,913,219
<i>Noncurrent Liabilities</i>			
Notes Payable	--	1,170,000	1,170,000
Compensated Absences, Long-term	22,412	--	22,412
Total Liabilities	1,690,515	1,415,116	3,105,631
NET ASSETS			
Invested in Fixed Assets, Net of Related Debt	2,587,819	9,911,879	12,499,698
<i>Restricted for:</i>			
Cemetery	5,751	--	5,751
Public Safety	387,717	--	387,717
Public Works	185,793	--	185,793
Debt Service	--	879,165	879,165
<i>Unrestricted</i>	<i>3,178,458</i>	<i>3,342,788</i>	<i>6,521,246</i>
Total Net Assets	\$ 6,345,538	\$ 14,133,832	\$ 20,479,370

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Niles
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental Activities:							
Legislative	\$ 81,186	\$ --	\$ --	\$ --	\$ (81,186)	\$ --	\$ (81,186)
General Government	518,345	55,506	--	--	(462,839)	--	(462,839)
Public Safety	2,021,963	1,198,479	2,525	--	(820,959)	--	(820,959)
Cultural and Recreation	61,342	2,600	--	--	(58,742)	--	(58,742)
Public Works	131,157	88,157	--	--	(43,000)	--	(43,000)
Community / Economic Development	79,511	--	--	--	(79,511)	--	(79,511)
Total Governmental Activities	2,893,504	1,344,742	2,525	--	(1,546,237)	--	(1,546,237)
Business-type Activities:							
Sewer	1,508,867	1,507,509	--	--	--	(1,358)	(1,358)
Water	306,976	216,779	--	--	--	(90,197)	(90,197)
Total Business-type Activities	1,815,843	1,724,288	--	--	--	(91,555)	(91,555)
Total Primary Government	\$ 4,709,347	\$ 3,069,030	\$ 2,525	\$ --	\$ (1,546,237)	\$ (91,555)	\$ (1,637,792)
General Purpose Revenues and Transfers:							
Revenues							
Taxes and Penalties					696,118	--	696,118
State Sources					1,027,413	--	1,027,413
Other Revenue					37,203	--	37,203
Interest Income					21,877	41,510	63,387
Transfers					--	--	--
Total General Revenues and Transfers					1,782,611	41,510	1,824,121
Change in Net Assets					236,374	(50,045)	186,329
<i>Net Assets at Beginning of Period</i>					<i>6,109,164</i>	<i>14,183,877</i>	<i>20,293,041</i>
Net Assets at End of Period					\$ 6,345,538	\$ 14,133,832	\$ 20,479,370

The Notes to the Financial Statements are an integral part of these Financial Statements

**Charter Township of Niles
Balance Sheet
Governmental Funds
December 31, 2011**

	<u>Special Revenue</u>			Other	Total
	General	Fire Operating	Fire Equipment	Governmental Funds	Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,229,236	\$ 394,540	\$ 313,914	\$ 316,349	\$ 2,254,039
Investments	1,245,114	--	--	--	1,245,114
Taxes Receivable	433,070	324,011	147,506	--	904,587
Receivables, Net	188,758	--	--	17,934	206,692
Intergovernmental Receivables	271,374	331,618	103,648	14,939	721,579
Prepaid Expenses	21,136	--	--	--	21,136
Due from Other Funds	539,323	14,857	--	--	554,180
Total Assets	\$ 3,928,011	\$ 1,065,026	\$ 565,068	\$ 349,222	\$ 5,907,327
LIABILITIES					
Accounts Payable	\$ 15,680	\$ 5,480	\$ --	\$ 364	\$ 21,524
Accrued Payroll	5,697	2,100	--	--	7,797
Deferred Revenue	673,453	669,729	251,129	32,873	1,627,184
Due to Other Funds	--	--	524,380	1,533	525,913
Total Liabilities	694,830	677,309	775,509	34,770	2,182,418
FUND BALANCE					
Nonspendable	21,136	--	--	--	21,136
Committed	524,380	--	--	--	524,380
Assigned	--	387,717	(210,441)	314,452	491,728
Unassigned	2,687,665	--	--	--	2,687,665
Total Fund Balance	3,233,181	387,717	(210,441)	314,452	3,724,909
Total Liabilities and Fund Balance	\$ 3,928,011	\$ 1,065,026	\$ 565,068	\$ 349,222	\$ 5,907,327

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Niles
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
December 31, 2011

Total Fund Balance - Governmental Funds	\$ 3,724,909
Net Assets of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements	22,753
General government capital assets of \$4,750,137, net of accumulated depreciation of \$2,162,318, are not financial resources and, accordingly, are not reported in the funds	2,587,819
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	(22,412)
Prepaid items are not current financial resources and, therefore, are not included in the funds	32,469
Total Net Assets-Governmental Funds	\$ <u>6,345,538</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Niles
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2011

	<u>Special Revenue</u>			<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Fire Operating</u>	<u>Fire Equipment</u>	<u>Governmental</u>	<u>Governmental</u>
Revenues				Funds	Funds
Taxes and Penalties	\$ 696,118	\$ 799,668	\$ 249,402	\$ --	\$ 1,745,188
Licenses and Permits	150,905	--	--	--	150,905
State Sources	1,027,413	--	--	--	1,027,413
Charges for Services	51,534	57,156	--	--	108,690
Fines and Forfeitures	13,247	--	--	--	13,247
Other Revenue	6,922	--	--	32,881	39,803
Interest Income	39,581	10,299	860	1,208	51,948
Total Revenues	1,985,720	867,123	250,262	34,089	3,137,194
Expenditures					
Legislative	81,186	--	--	--	81,186
General Government	497,524	--	864	562	498,950
Public Safety	1,022,187	874,452	--	--	1,896,639
Public Works	83,968	--	--	41,065	125,033
Community / Economic Development	79,259	--	--	--	79,259
Cultural and Recreation	50,341	--	--	--	50,341
Debt Service - Interest	--	--	30,071	--	30,071
Capital Outlay	10,814	--	15,403	70,846	97,063
Total Expenditures	1,825,279	874,452	46,338	112,473	2,858,542
Excess of Revenues Over					
(Under) Expenditures	160,441	(7,329)	203,924	(78,384)	278,652
Other Financing Sources (Uses)					
Transfers from Other Funds	342,704	--	--	59,529	402,233
Transfers to Other Funds	--	--	--	(402,233)	(402,233)
Net Other Financing Sources (Uses)	342,704	--	--	(342,704)	--
Net Change in Fund Balance	503,145	(7,329)	203,924	(421,088)	278,652
<i>Fund Balance at Beginning of Period</i>	<i>2,730,036</i>	<i>395,046</i>	<i>(414,365)</i>	<i>735,540</i>	<i>3,446,257</i>
Fund Balance at End of Period	\$ 3,233,181	\$ 387,717	\$ (210,441)	\$ 314,452	\$ 3,724,909

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Niles
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended December 31, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 278,652
Changes in net assets of internal service funds that are treated as enterprise fund changes in net assets in the fund level statements are treated as governmental fund changes in net assets in the entity-wide statements	22,753
Governmental funds report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$162,351 is in excess of capital outlay expenditures of \$97,063	(65,288)
Compensated absences are expensed in the Statement of Activities when incurred. However, if they are not to be paid using current financial resources, they are not recorded in the fund statements. This represents the change in compensated absences for the year	(412)
Prepaid expenses are expensed in the Statement of Activities when incurred. However, if they are not to be consumed as a current financial resource, they are not recorded in the fund statements. This represents the change in prepaid expenses for the year	669
Changes in Net Assets-Governmental Funds	\$ <u>236,374</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Charter Township of Niles
Statement of Net Assets
Proprietary Funds
December 31, 2011**

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Sewer	Water	Total Enterprise Funds	
ASSETS				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 1,529,539	\$ 895,549	\$ 2,425,088	\$ 62,618
Investments	407,826	--	407,826	--
Receivables, Net	468,971	174,524	643,495	--
Intergovernmental Receivables	67,662	7,474	75,136	--
Prepaid Expenses	9,231	1,100	10,331	--
Due from Other Funds	449,269	578	449,847	--
Total Current Assets	2,932,498	1,079,225	4,011,723	62,618
<i>Noncurrent Assets</i>				
Receivables, Noncurrent	--	749,924	749,924	--
Deferred Charges	--	30,269	30,269	--
Capital Assets, Net	8,089,141	3,117,738	11,206,879	--
Total Assets	11,021,639	4,977,156	15,998,795	62,618
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	97,485	17,036	114,521	4,278
Accrued Payroll	3,926	--	3,926	--
Accrued Interest	--	8,989	8,989	--
Current Portion of Long-term Debt	--	125,000	125,000	--
Due to Other Funds	--	442,527	442,527	35,587
Total Current Liabilities	101,411	593,552	694,963	39,865
<i>Noncurrent Liabilities</i>				
Notes Payable	--	1,170,000	1,170,000	--
Total Liabilities	101,411	1,763,552	1,864,963	39,865
NET ASSETS				
Invested in Fixed Assets, Net of Related Debt	8,089,141	1,822,738	9,911,879	--
<i>Restricted for:</i>				
Debt Service	--	879,165	879,165	--
<i>Unrestricted</i>	2,831,087	511,701	3,342,788	22,753
Total Net Assets	\$ 10,920,228	\$ 3,213,604	\$ 14,133,832	\$ 22,753

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Niles
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer	Water	Total Enterprise Funds	Internal Service Fund
Operating Revenues				
Charges for Services	\$ 1,477,531	\$ 157,602	\$ 1,635,133	\$ 358,912
Other Revenue	29,978	2,430	32,408	--
Total Operating Revenues	1,507,509	160,032	1,667,541	358,912
Operating Expenses				
General Government	--	--	--	2
Benefits Expenses	--	--	--	336,157
Contracted Services	908,945	35,957	944,902	--
Personnel Costs	290,914	38,641	329,555	--
Operations and Supplies	72,624	29,887	102,511	--
Depreciation	236,384	95,292	331,676	--
Total Operating Expenses	1,508,867	199,777	1,708,644	336,159
Operating Income (Loss)	(1,358)	(39,745)	(41,103)	22,753
Non-Operating Revenues (Expenses)				
Interest Income	12,210	86,047	98,257	--
Interest Expense	--	(107,199)	(107,199)	--
Net Non-Operating Revenues (Expenses)	12,210	(21,152)	(8,942)	--
Income Before Contributions and Transfers	10,852	(60,897)	(50,045)	22,753
Transfers from Other Funds	--	--	--	--
Transfers to Other Funds	--	--	--	--
Change In Net Assets	10,852	(60,897)	(50,045)	22,753
<i>Net Assets at Beginning of Period</i>	10,909,376	3,274,501	14,183,877	--
Net Assets at End of Period	\$ 10,920,228	\$ 3,213,604	\$ 14,133,832	\$ 22,753

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Niles
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Business type Activities Enterprise Funds			Governmental Activities
	Sewer	Water	Total Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities				
Receipts From Customers	\$ 1,477,531	\$ 168,060	\$ 1,645,591	\$ 358,912
Payments to Vendors & Suppliers	(981,569)	(65,844)	(1,047,413)	-
Payments to Employees	(290,914)	(38,641)	(329,555)	-
Payments of Healthcare Claims	-	-	-	(336,159)
Net Cash Provided by Operating Activities	205,048	63,575	268,623	22,753
Cash Flows From Non-capital Financing Activities				
Increase (Decrease) in Interfund Balances	320,375	-	320,375	-
Cash Flows From Capital & Related Financing Activities				
Collections on Special Assessments	-	159,541	159,541	-
Acquisition of Capital Assets	(631,858)	(8,896)	(640,754)	-
Payment on Long-term Debt	-	(125,000)	(125,000)	-
Interest Paid	-	(107,199)	(107,199)	-
Net Cash Used in Capital & Related Financing Activities	(631,858)	(81,554)	(713,412)	-
Cash Flows From Investing Activities				
Sale of Investments	-	200,025	-	-
Interest & Dividends	29,978	2,430	32,408	(10)
Net Cash Provided by (Used in) Investing Activities	29,978	202,455	32,408	(10)
Net Increase (Decrease) in Cash	(76,457)	184,476	(92,006)	22,743
Cash - Beginning	1,922,077	711,073	2,633,150	39,875
Cash - Ending	\$ 1,529,539	\$ 895,549	\$ 2,541,144	\$ 62,618

The Notes to the Financial Statements are an integral part of these Financial Statements.

Charter Township of Niles
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Business type Activities Enterprise Funds			Governmental Activities
	Sewer	Water	Total Enterprise Funds	Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income	\$ (1,358)	\$ (39,745)	\$ (41,103)	\$ 22,753
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation and Amortization Expense	236,384	95,292	331,676	-
Changes in Assets & Liabilities				
Receivables, Net	(37,375)	(16,038)	(53,413)	-
Prepaid Expenses	569	(100)	469	-
Accounts Payable	20,580	15,075	35,655	-
Accrued and Other Liabilities	(13,752)	9,091	(4,661)	-
Net Cash Provided by Operating Activities	<u>\$ 205,048</u>	<u>\$ 63,575</u>	<u>\$ 268,623</u>	<u>\$ 22,753</u>

The Notes to the Financial Statements are an integral part of these Financial Statements.

Charter Township of Niles
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	Pension and Benefit Trust		Agency				
	Retirement System Fund- General	Police & Fire Retirement Fund	Imprest Payroll	Reclamation Fund	Trust & Agency	Current Tax Collection	Purdy Cemetary Trust
ASSETS							
Cash and Cash Equivalents	\$ --	\$ 120,000	\$ 975	\$ 4,851	\$ 6,176	\$ 980,596	\$ 5,751
Investments	1,182,330	3,281,499	--	81,084	--	--	--
Accrued Interest	--	12,882	--	--	--	--	--
Total Assets	1,182,330	3,414,381	975	85,935	6,176	980,596	5,751
LIABILITIES							
Due to Other Governments	--	--	975	85,935	6,176	980,596	5,751
Total Liabilities	--	--	975	85,935	6,176	980,596	5,751
NET ASSETS							
Held in Trust	\$ 1,182,330	\$ 3,414,381	\$ --	\$ --	\$ --	\$ --	\$ --

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Niles
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2011

	General Government Pension Plan	Police and Fire Pension Plan	Totals
Additions			
Contributions:			
Employer	\$ 49,428	\$ 99,758	\$ 149,186
Participants	33,113	31,834	64,947
	<hr/>	<hr/>	<hr/>
<i>Total Contributions</i>	82,541	131,592	214,133
Investment Return	<hr/> (4,674)	<hr/> 47,564	<hr/> 42,890
	<hr/>	<hr/>	<hr/>
<i>Total Additions</i>	77,867	179,156	257,023
Deductions			
Benefits Paid	9,684	354,231	363,915
Expenses	3,043	15,953	18,996
	<hr/>	<hr/>	<hr/>
<i>Total Deductions</i>	12,727	370,184	382,911
Net Increase (Decrease)	65,140	(191,028)	(125,888)
Net Assets Held In Trust for Pension Benefits			
Beginning	<hr/> 1,117,190	<hr/> 3,605,409	<hr/> 4,722,599
Ending	<hr/> \$ 1,182,330	<hr/> \$ 3,414,381	<hr/> \$ 4,596,711

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Niles

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Niles, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity

The Township is governed by an elected board of trustees. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, these financial statements present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net assets and the Statement of Activities) report information on all of the nonfiduciary activities of the Township. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property

Charter Township of Niles

Notes to the Financial Statements

taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the Township.

The Township reports the following major governmental funds:

The **General Fund** is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The **Fire Operating Fund** accounts for special assessments levied to support operating costs of fire protection and response services.

The **Fire Equipment Fund** accounts for special assessments levied to finance capital outlays used in operating costs of fire protection and response services.

The Township reports the following major proprietary funds:

The **Sewer Fund** accounts for the operation of the Township's sewage system and treatment plant.

The **Water Fund** accounts for the operation of the Township's water mains and pumping facilities.

Additionally, the Township reports the following fund types:

The **Internal Service Fund** accounts for the accumulation and allocation of self-funded healthcare claims program to various Township departments.

Charter Township of Niles

Notes to the Financial Statements

The **agency funds** account for the collection and disbursements of taxes and other monies due to other units of government and individuals.

The **pension trust funds** account for assets held to provide retirement benefits to eligible participants and their beneficiaries.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary funds financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Township has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Bank deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Net Assets.

Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from

Charter Township of Niles

Notes to the Financial Statements

other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are considered to be fully collectible.

Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 50 years
Furniture, fixtures, and equipment	5- 15 years
Vehicles	5 - 15 years
Infrastructure	20 years
Sewer and water systems	40 - 75 years

Compensated absences (vacation and sick leave) - It is the Township’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. However, accrued vacation must be used within ninety (90) days of year end. Per the union contract, 50% of a maximum number of days of unused firefighter sick leave is vested. Vested compensated absences are accrued when earned in the government-wide and proprietary funds financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Fund equity - In the fund financial statements, fund balance is presented in five possible categories, each of which identifies the extent to which the Township is bound to honor constraints on the specific purpose for which amounts can be spent:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates).

Committed – amounts that are committed for specific purposes by the Board, as the Township’s highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Board removes or changes the specific use through the same type of formal action taken to establish the commitment.

Charter Township of Niles

Notes to the Financial Statements

Assigned – amounts that are constrained by the Township’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Designations of fund balance represent tentative management plans that are subject to change.

Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, at which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and accordingly, the total levy is recognized as revenue in the subsequent year.

Note 2 - Stewardship , Compliance, and Accountability

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, activity, and line item. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of expenditures over appropriations - The following schedule sets forth significant negative budget variances.

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Fire Operating	Public Safety	\$ 834,953	\$ 874,452	\$ (39,499)

Deficit equity position - As of December 31, 2011, the Township reported a deficit in the Fire Equipment Fund of \$210,441, which arose from the use of a temporary advance from the General Fund to partially finance a new fire station. The Township intends for the fund to repay the advance over the next two years using a special voted tax.

Charter Township of Niles

Notes to the Financial Statements

Note 3 – Cash and Investments

A reconciliation of cash and investments to the Township's deposits and investments, as shown in the government-wide financial statements and in the statement of fiduciary net assets, is as follows:

	Fiduciary Net Assets				
	Governmental Activities	Business-type Activities	Employee Retirement Plans	Agency Funds	Totals
Cash	\$ 2,316,657	\$ 2,425,088	\$ 120,000	\$ 998,349	\$ 5,860,094
Investments	1,245,114	407,826	4,463,829	81,084	6,197,853
	<u>\$ 3,561,771</u>	<u>\$ 2,832,914</u>	<u>\$ 4,583,829</u>	<u>\$ 1,079,433</u>	<u>\$ 12,057,947</u>
Deposits					\$ 6,213,909
Cash on Hand					500
Investments					5,843,538
Total					<u>\$ 12,057,947</u>

Deposits

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Investments

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance or are uncollateralized. The Township's investment policy does not specifically address custodial credit risk for deposits. At December 31, 2011, \$477,879 of the Township's bank balances of \$5,740,094 was exposed to custodial credit risk because it was uninsured and uncollateralized. Of the total bank balances, \$5,740,094 was maintained with one financial institution.

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, within three (3) highest rate classifications by at least two (2) national rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds holding investments allowable by state statute.

Charter Township of Niles

Notes to the Financial Statements

State statutes authorize defined benefit plan trusts to invest not more than 65% in common stocks and no more than 5% in real estate holdings. Participant directed defined contribution plans are not subject to limitations as to the nature and extent of holdings. Investments as of December 31, 2011, consist of the following (reported at fair value):

Police & Fire Pension Trust Fund:

Pooled Equity Funds:

Fidelity Contra Fund #022	\$ 628,518
Wasatch First Source Income Equity Fund	403,580
Other Funds	<u>711,294</u>
Total Pooled Equity Funds	1,743,392

Governmental Agencies & Treasuries

U.S. Agencies	522,540
U.S. Treasuries	<u>414,584</u>
Total Government Agencies & Treasuries	937,124

Coporate Debt Securities	359,364
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Common Stocks	29,510
---------------	--------

Cash & Cash Equivalents	120,000
-------------------------	---------

Other	65,482
-------	--------

Equities	10,938
----------	--------

Fixed Income Pooled Funds	<u>148,571</u>
---------------------------	----------------

Total Police & Fire Pension Trust Fund	3,414,381
--	-----------

General Government Pension Trust Fund:

Pooled Separate Accounts with Insurance Company	<u>1,182,330</u>
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Total Investments of Pension Trust Funds	4,596,711
--	-----------

Michigan Class	<u>1,246,827</u>
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Total Investments	<u><u>\$ 5,843,538</u></u>
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Charter Township of Niles

Notes to the Financial Statements

Risks related to investments. The Township has not established an investment policy that addresses interest rate risk, credit risk, concentration of credit risk, or custodial credit risk, as described below.

Interest rate risk. Of the Township's holdings, the U.S. treasuries, U.S. agencies, municipals, and corporate debt securities holdings are subject to interest rate risk disclosure. As of December 31, 2011, \$40,438 is due within one year, \$891,952 is due within two to ten years, and \$364,098 is due in more than ten years.

Credit risk. The Township's investment holdings in U.S. agencies and corporate debt securities had the following Standard and Poor's credit risk ratings:

	Fair Value	Rating
U.S. Agencies	<u>\$ 937,124</u>	AAA
Corporate Debt Securities	\$ 46,252	AAA
	86,346	AA
	163,367	A
	63,400	BBB
Total Corporate Debt Securities	<u>\$ 359,364</u>	

Custodial credit risk. Of the Township's investment holdings, U.S. treasuries, U.S. agencies, and corporate debt holdings are subject to custodial credit risk disclosure and are uninsured, unregistered, and held by the Township's brokerage firm. Investments in mutual funds are not subject to custodial credit risk.

Note 4 - Receivables

Receivables as of December 31, 2011, for the Townships individual major and nonmajor funds, in the aggregate, were as follows:

	General	Fire Operating	Fire Equipment	Other Funds	Proprietary Funds		Total
					Sewer	Water	
Receivables							
Taxes	\$ 433,070	\$ 324,011	\$ 147,506	\$ -	\$ -	\$ -	\$ 904,587
Accounts	188,758	-	-	17,934	468,971	174,524	850,187
Intergovernmental	271,374	331,618	103,648	14,939	67,662	7,474	796,715
Total Receivables	<u>\$ 893,202</u>	<u>\$ 655,629</u>	<u>\$ 251,154</u>	<u>\$ 32,873</u>	<u>\$ 536,633</u>	<u>\$ 181,998</u>	<u>\$ 2,551,489</u>

All receivables are considered fully collectible.

Charter Township of Niles

Notes to the Financial Statements

Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

Governmental Activities	December 31, 2010	Additions	Reductions	December 31, 2011
Capital assets not being depreciated:				
Land	\$ 216,720	\$ 16,923	\$ -	\$ 233,643
Subtotal - nondepreciable capital assets	216,720	16,923	-	233,643
Capital assets being depreciated:				
Buildings	2,810,274	16,190	-	2,826,464
Vehicles	988,520	33,014	-	1,021,534
Equipment	550,284	2,751	-	553,035
Streets	87,276	28,186	-	115,462
Total capital assets being depreciated	4,436,354	80,140	-	4,516,494
Less accumulated depreciation:				
Buildings	1,120,701	42,885	-	1,163,586
Vehicles	519,916	67,435	-	587,351
Equipment	340,548	47,296	-	387,844
Streets	18,802	4,735	-	23,537
Total accumulated depreciation	1,999,967	162,351	-	2,162,318
Total capital assets being depreciated - Net	2,436,387	(82,211)	-	2,354,176
Governmental activities capital assets - Net	\$ 2,653,107	\$ (65,288)	\$ -	\$ 2,587,819
Business-type Activities	December 31, 2010	Additions	Reductions	December 31, 2011
Capital assets not being depreciated:				
Land	\$ 32,009	\$ -	\$ -	\$ 32,009
Capital assets being depreciated:				
Sewer System	14,176,093	631,858	-	14,807,951
Water System	4,565,768	8,896	-	4,574,664
Total capital assets, being depreciated	18,741,861	640,754	-	19,382,615
Less accumulated depreciation:				
Sewer System	6,484,576	236,385	-	6,720,961
Water System	1,391,493	95,291	-	1,486,784
Total accumulated depreciation	7,876,069	331,676	-	8,207,745
Total capital assets being depreciated - Net	10,865,792	309,078	-	11,174,870
Business-type activities capital assets - Net	10,897,801	\$ 309,078	\$ -	\$ 11,206,879

Charter Township of Niles

Notes to the Financial Statements

Depreciation expense was charged to programs of the Township as follows:

Governmental Activities:

General Government	\$ 19,322
Public Safety	125,652
Public Works	6,124
Recreation & Culture	11,001
Community & Economic Development	252
Total Governmental Activities	<u>\$ 162,351</u>

Business-Type Activities:

Water	\$ 95,292
Sewer	236,384
Total Business-Type Activities	<u>\$ 331,676</u>

Note 6 - Payables

Payables as of December 31, 2011, for the Township's individual major and nonmajor funds, in the aggregate, were as follows:

	Proprietary Funds					
	General	Fire Operating	Other Funds	Sewer	Water	Total
Payables						
Accounts	\$ 15,680	\$ 5,480	\$ 4,642	\$ 97,485	\$ 17,036	\$ 140,323
Interest	-	-	-	-	8,989	8,989
Total Payables	<u>\$ 15,680</u>	<u>\$ 5,480</u>	<u>\$ 4,642</u>	<u>\$ 97,485</u>	<u>\$ 26,025</u>	<u>\$ 149,312</u>

Note 7 – Deferred Revenues

Governmental funds report deferred revenues in connection with assets that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenues were as follows:

	Unearned
Property Taxes	\$ 673,453
Special Assessments	953,731
Total	<u>\$ 1,627,184</u>

Charter Township of Niles

Notes to the Financial Statements

Note 8 – Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2011, was as follows:

		Due To Other Funds				
Due From Other Funds		Health Benefit Program	Special Assessment	Fire Equipment	Water	Total
	General Fund	\$ 14,943	\$ -	\$ 524,380	\$ -	539,323
	Fire Operating	13,324	1,533	-	-	14,857
	Sewer	6,742	-	-	442,527	449,269
	Water	578	-	-	-	578
		<u>\$ 35,587</u>	<u>\$ 1,533</u>	<u>\$ 524,380</u>	<u>\$ 442,527</u>	<u>\$ 1,004,027</u>

All amounts due from other funds represent advances to other funds to finance operations or capital outlays. The amounts due from the Health Claims Fund represent the cumulative overbilling for allocated costs.

The Fire Equipment Fund is repaying an advance from the General Fund (currently \$524,380) as resources become available, with interest at 4.0%.

The Water Fund is repaying an advance from the Sewer Fund (currently \$442,527) in annual installments of \$24,846, including interest at 5.0%, through September 2021.

The composition of interfund transfers for the year ended December 31, 2011 is as follows:

		Transfer Out To Other Funds			
Transfer In From Other Funds		Budget Stabilization	Financing Fund	Improvement Revolving Fund	Total
	General Fund	\$ 131,225	\$ 132,662	\$ 78,817	\$ 342,704
	Special Assessment	-	59,529	-	59,529
	Total	<u>\$ 131,225</u>	<u>\$ 192,191</u>	<u>\$ 78,817</u>	<u>\$ 402,233</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 9 – Long-term Debt

Governmental long-term debt consists of vested compensated absences.

Charter Township of Niles

Notes to the Financial Statements

Business-type long-term debt consists of \$1,295,000, Water Improvement Project Special Assessment bonds (a limited tax obligation). The bonds were issued pursuant to the provisions of Public Act 188, as amended, to finance water system improvements, and are to be repaid primarily from special assessments levied upon benefited properties. The bonds are secured by the full faith and credit of the Township.

Changes in long-term debt during the current year were as follows:

	December 31, 2010	Additions	Reductions	December 31, 2011	Due Within One Year
Governmental activities					
Compensated absences	22,000	412	-	22,412	-
	<u>\$ 22,000</u>	<u>\$ 412</u>	<u>\$ -</u>	<u>\$ 22,412</u>	<u>\$ -</u>
Business-type activities					
Bonds	<u>\$ 1,420,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 1,295,000</u>	<u>125,000</u>

Future bond debt requirements at December 31, 2011, were as follows:

	Bond Debt Requirements		
	Principal	Interest	Total
2012	125,000	51,640	176,640
2013	130,000	46,540	176,540
2014	130,000	41,340	171,340
2015	130,000	35,977	165,977
2016	130,000	30,810	160,810
2017-2021	650,000	68,998	718,998
Totals:	<u>\$ 1,295,000</u>	<u>\$ 275,305</u>	<u>\$ 1,570,305</u>

Note 10 – Retirement Plans

Police and Fire Pension Plan

Plan description

The Police and Fire Pension Plan (PFPP) is a single-employer defined benefit pension plan administered by the Township. The PFPP provides retirement, disability, and death benefits to eligible police and fire department members and their beneficiaries. Cost of living adjustments are provided to members and beneficiaries at the discretion of the Township. Separately issued financial statements of this plan are not prepared.

Charter Township of Niles

Notes to the Financial Statements

Funding policy

The contribution requirements of plan members and the Township are established and may be amended by Township resolution. Plan members are required to contribute 7.0% of their annual covered salary. For the year ended December 31, 2011, member contributions totaled \$31,834. The Township is required to contribute at an actuarially determined rate (currently 24.73% of annual covered payroll). The Township's annual pension cost for the year ended December 31, 2011, was \$99,758.

Annual pension cost and three-year trend information

The annual required contribution was determined as part of the December 31, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a) 7.5% investment rate of return and b) projected payroll increases of 5.0%. The actuarial value of assets is based on current fair value. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open period of 15 years.

<i>Three-year Trend Information</i>			
Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
12/31/2009	105,755	100%	-
12/31/2010	96,018	100%	-
12/31/2011	99,758	100%	-

Funded status and funding progress

The funded status of the plan for the most recent actuarial valuation date is as follows:

	December 31,	
	2008	2010
Actuarial Value of Assets	3,785,657	3,693,890
Actuarial Accrued Liability (AAL)	5,001,460	5,216,935
Unfunded AAL (UAAL)	1,215,803	1,523,045
Funded Ratio	76%	71%
Covered Payroll	421,277	447,916
UAAL as a % of Covered Payroll	289%	340%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

Charter Township of Niles

Notes to the Financial Statements

Certain other accounting policies and plan asset matters are discussed in greater detail in the Township's actuarial valuation.

Effective with the actuarial valuation as of December 31 2008, the Township adopted the following changes in actuarial assumptions:

- The valuation date was changed from April 1 to December 31.
- The amortization of the unfunded accrued liability was changed from a level dollar amortization over an open period of 15 years to a level percent of payroll amortization over a closed 30-year period.
- The asset valuation method was changed from market value to a 5-year smoothing of investment gains and losses.

General Government Pension Plan

The General Government Pension Plan (GGPP) is a single-employer defined contribution pension plan administered by the Township. The GGPP provides retirement benefits to all full-time employees other than those covered by the PFPP. Plan provisions and contribution requirements are established and may be amended by the Township Board. Currently, the Township contributes 9.0% of covered salary. Plan members are required to contribute 5.0% of covered salary and may make voluntary contributions subject to IRS limitations. The employer and employee contributions totaled \$49,428 and \$33,113, respectively, for the year ended December 31, 2011.

Note 11 – Risk Management

The Township is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents and workers' compensation, and casualty are managed through purchased commercial insurance. For all such risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

Note 12 – Building Inspection Activities

A summary of building inspection fees and direct costs is as follows:

Revenues	\$ 72,674
Expenses	<u>176,929</u>
Deficiency of revenues over expenses	<u><u>\$ (104,255)</u></u>

Charter Township of Niles

Notes to the Financial Statements

Note 13 – Property Taxes

The 2011 taxable valuation of the Township totaled \$359,802,346 , on which ad valorem taxes levied consisted of the following:

<u>Fund</u>	<u>Millage Rate</u>	<u>Purpose</u>	<u>Taxes Raised</u>
General	0.8732	General Operations	\$ 314,179
Police	1.0000	Police Safety Operations	359,802

These amounts are recognized in the financial statements as taxes receivable, with an offsetting credit to deferred revenue. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Niles
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Taxes	\$ 677,150	\$ 677,150	\$ 696,118	\$ 18,968
State Grants	852,000	852,000	1,027,413	175,413
Fines & Forfeitures	12,000	12,000	13,247	1,247
Licenses & Permits	122,500	122,500	150,905	28,405
Charges for Services	85,558	85,558	51,534	(34,024)
Interest & Rentals	43,400	43,400	39,581	(3,819)
Other	138,147	138,147	6,922	(131,225)
Total Revenues	1,930,755	1,930,755	1,985,720	54,965
Other Financing Sources				
Transfers from other funds	--	--	342,704	342,704
Total Revenues and Other Financing Sources	1,930,755	1,930,755	2,328,424	397,669
Expenditures				
Legislative	82,837	82,837	81,186	1,651
Total Legislative	82,837	82,837	81,186	1,651
General Government				
Supervisor	30,021	30,021	30,895	(874)
Elections	10,405	10,405	5,505	4,900
Assessor	89,755	89,755	108,123	(18,368)
Clerk	83,090	83,090	87,444	(4,354)
Board of Review	1,400	1,400	911	489
Data Processing	9,500	9,500	5,803	3,697
Treasurer	82,944	82,944	81,234	1,710
Tax Preparation and Collection	31,950	31,950	22,007	9,943
Township Hall and Grounds	149,606	149,606	148,662	944
Other	10,000	10,000	6,940	3,060
Total General Government	498,671	498,671	497,524	1,147
Public Safety				
Police Protection	908,640	908,640	837,568	71,072
Building Inspection	160,176	160,176	177,079	(16,903)
Ordinance Administration	25,350	25,350	18,354	6,996
Total Public Safety	1,094,166	1,094,166	1,033,001	61,165
Public Works				
Highways and Streets	110,675	110,675	78,794	31,881
Street Lighting	3,000	3,000	2,999	1
Drains at Large	3,650	3,650	2,175	1,475
Total Public Works	117,325	117,325	83,968	33,357

Charter Township of Niles
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (Continued)
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Expenditures (Continued)				
Recreation and Culture	84,734	84,734	79,259	5,475
<i>Total Recreation and Culture</i>	84,734	84,734	79,259	5,475
Community / Economic Development				
Planning and Zoning	53,022	53,022	50,341	2,681
<i>Total Community / Economic Development</i>	53,022	53,022	50,341	2,681
<i>Total Expenditures</i>	1,930,755	1,930,755	1,825,279	105,476
Other Financing Uses				
<i>Total Expenditures and Other Financing Uses</i>	1,930,755	1,930,755	1,825,279	105,476
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	--	--	503,145	503,145
<i>Net Change in Fund Balance</i>	--	--	503,145	503,145
<i>Fund Balance at Beginning of Period</i>	2,730,036	2,730,036	2,730,036	--
<i>Fund Balance at End of Period</i>	\$ 2,730,036	\$ 2,730,036	\$ 3,233,181	\$ 503,145

Charter Township of Niles
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Fire Equipment
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Taxes	\$ 252,889	\$ 252,889	\$ 249,402	\$ (3,487)
Interest Income	--	--	860	860
<i>Total Revenues</i>	<u>252,889</u>	<u>252,889</u>	<u>250,262</u>	<u>(2,627)</u>
Other Financing Sources				
<i>Total Revenues and Other Financing Sources</i>	<u>252,889</u>	<u>252,889</u>	<u>250,262</u>	<u>(2,627)</u>
Expenditures				
Capital Outlay	60,000	60,000	15,403	44,597
General Government	600	600	864	(264)
Interest	30,930	30,930	30,071	859
<i>Total Expenditures</i>	<u>91,530</u>	<u>91,530</u>	<u>46,338</u>	<u>45,192</u>
Other Financing Uses				
<i>Total Expenditures and Other Financing Uses</i>	<u>91,530</u>	<u>91,530</u>	<u>46,338</u>	<u>45,192</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	<u>161,359</u>	<u>161,359</u>	<u>203,924</u>	<u>42,565</u>
<i>Net Change in Fund Balance</i>	<u>161,359</u>	<u>161,359</u>	<u>203,924</u>	<u>42,565</u>
<i>Fund Balance at Beginning of Period</i>	<u>(414,365)</u>	<u>(414,365)</u>	<u>(414,365)</u>	<u>--</u>
<i>Fund Balance at End of Period</i>	<u>\$ (253,006)</u>	<u>\$ (253,006)</u>	<u>\$ (210,441)</u>	<u>\$ 42,565</u>

Charter Township of Niles
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Fire Operating
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Taxes	\$ 808,785	\$ 808,785	\$ 799,668	\$ (9,117)
Charges for Services	65,000	65,000	57,156	(7,844)
Interest Income	--	--	10,299	10,299
<i>Total Revenues</i>	<u>873,785</u>	<u>873,785</u>	<u>867,123</u>	<u>(6,662)</u>
Other Financing Sources				
<i>Total Revenues and Other Financing Sources</i>	<u>873,785</u>	<u>873,785</u>	<u>867,123</u>	<u>(6,662)</u>
Expenditures				
Public Safety	834,953	834,953	874,452	(39,499)
<i>Total Expenditures</i>	<u>834,953</u>	<u>834,953</u>	<u>874,452</u>	<u>(39,499)</u>
Other Financing Uses				
<i>Total Expenditures and Other Financing Uses</i>	<u>834,953</u>	<u>834,953</u>	<u>874,452</u>	<u>(39,499)</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	<u>38,832</u>	<u>38,832</u>	<u>(7,329)</u>	<u>(46,161)</u>
<i>Net Change in Fund Balance</i>	<u>38,832</u>	<u>38,832</u>	<u>(7,329)</u>	<u>(46,161)</u>
<i>Fund Balance at Beginning of Period</i>	<u>395,046</u>	<u>395,046</u>	<u>395,046</u>	<u>--</u>
<i>Fund Balance at End of Period</i>	<u>\$ 433,878</u>	<u>\$ 433,878</u>	<u>\$ 387,717</u>	<u>\$ (46,161)</u>

Charter Township of Niles
Required Supplementary Information
Police & Fire Pension Plan
Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
4/1/2007	3,767,251	4,245,129	477,878	89%	419,120	114%
12/31/2008	3,785,657	5,001,460	1,215,803	76%	421,277	289%
12/31/2010	3,693,890	5,216,935	1,523,045	71%	447,916	340%

OTHER SUPPLEMENTARY INFORMATION

**Charter Township of Niles
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2011**

	Special Revenue				Capital Projects	Total Nonmajor Governmental Funds
	Improvement Revolving Fund	Special Assessment	Financing Fund	Budget Stabilization	Capital Improvement	
ASSETS						
Cash and Cash Equivalents	\$ --	\$ 187,690	\$ --	\$ --	\$ 128,659	\$ 316,349
Receivables (Net)	--	17,934	--	--	--	17,934
Intergovernmental Receivables	--	14,939	--	--	--	14,939
Total Assets	\$ --	\$ 220,563	\$ --	\$ --	\$ 128,659	\$ 349,222
LIABILITIES						
Accounts Payable	\$ --	\$ 364	\$ --	\$ --	\$ --	\$ 364
Deferred Revenue	--	32,873	--	--	--	32,873
Due to Other Funds	--	1,533	--	--	--	1,533
Total Liabilities	--	34,770	--	--	--	34,770
FUND BALANCE						
Assigned	--	185,793	--	--	128,659	314,452
Total Fund Balance	--	185,793	--	--	128,659	314,452
Total Liabilities and Fund Balance	\$ --	\$ 220,563	\$ --	\$ --	\$ 128,659	\$ 349,222

Charter Township of Niles
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2011

	Special Revenue				Capital Projects	Total Nonmajor Governmental Funds
	Improvement Revolving Fund	Special Assessment	Financing Fund	Budget Stabilization	Capital Improvement	
Revenues						
Other Revenue	\$ --	\$ 32,873	\$ --	\$ --	\$ 8	\$ 32,881
Interest Income	81	427	52	144	504	1,208
Total Revenues	81	33,300	52	144	512	34,089
Expenditures						
General Government	67	--	--	136	359	562
Public Works	--	41,065	--	--	--	41,065
Capital Outlay	--	--	34	--	70,812	70,846
Total Expenditures	67	41,065	34	136	71,171	112,473
Excess of Revenues Over (Under) Expenditures	14	(7,765)	18	8	(70,659)	(78,384)
Other Financing Sources (Uses)						
Transfers from Other Funds	--	59,529	--	--	--	59,529
Transfers to Other Funds	(78,817)	--	(192,191)	(131,225)	--	(402,233)
Net Other Financing Sources (Uses)	(78,817)	59,529	(192,191)	(131,225)	--	(342,704)
Net Change in Fund Balance	(78,803)	51,764	(192,173)	(131,217)	(70,659)	(421,088)
<i>Fund Balance at Beginning of Period</i>	78,803	134,029	192,173	131,217	199,318	735,540
Fund Balance at End of Period	\$ --	\$ 185,793	\$ --	\$ --	\$ 128,659	\$ 314,452



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

May 2, 2012

To the Board of Trustees
Charter Township of Niles
Niles, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan as of and for the year ended December 31, 2011, which collectively comprise the Charter Township of Niles, Michigan's basic financial statements and have issued our report thereon dated May 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charter Township of Niles, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Charter Township of Niles, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Township of Niles, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be a material weakness – 2011-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Township of Niles, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Charter Township of Niles, Michigan's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Charter Township of Niles, Michigan's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Township Board of Trustees, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Best regards,

A handwritten signature in dark ink that reads "Gabridge & Company". The signature is written in a cursive, flowing style.

Gabridge & Company, PLC

Charter Township of Niles

Schedule of Findings and Responses

Material Weakness

2011-1 – Preparation of Governmental Financial Statements

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition/Finding:	As is the case with many smaller and medium sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Township's internal controls. In addition, we proposed, and management approved, material journal entries to properly record debt service, accounts receivable, unbilled receivables, prepaid expenditures, and capital asset (capital outlay) transactions in the proprietary and governmental funds.
Cause:	This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.
Effect:	As a result of this condition, the Township lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task. In addition, the Township's records were initially misstated by an amount material to the financial statements.
View of Responsible Officials:	The Township agrees with this finding. It is cost prohibitive to produce financial statements in accordance with GAAP. However, the Township will be working with the audit team to understand the conditions that led to the proposed journal entries and develop a process to move toward the production of GAAP financial statements by the Township.